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[1](#)1. ALBERTA MINISTER MELCHIN WARNS OTTAWA TO KEEP ENERGY OUT OF SOFTWOOD LUMBER DISPUTE: "HANDS OFF OUR OIL"

Alberta Energy Minister Greg Melchin made public in October his opposition to using energy policy as a bargaining chip in the softwood lumber dispute, after meeting with top US energy officials. The provincial government has been dismissive of those in Ottawa calling for the linkage of energy and lumber, reminding Canadians that Prime Minister Martin can "talk all he wants, but the fact is the resources-are owned by the provinces". Tariffs imposed by the United States on Canadian softwood lumber continues to be the major point of contention in the Washington-Ottawa relationship, with Secretary Rice's recent talks with Martin bringing the issue to the forefront. With Canada supplying an increasingly large portion of the United States' seemingly insatiable energy consumption, energy resources are seen as one of the few areas of trade where Ottawa is negotiating from a position of strength. Support for restricting energy exports has grown exponentially since August, when the United States called for further talks following a NAFTA ruling ordered Washington to compensate Canada for the US\$5 billion in tariffs levied against the Canadian lumber industry.

[1](#)2. NEP2 ON THE HORIZON?

The 25th anniversary of Canada's National Energy Program (NEP) this month saw an Alberta eerily similar to its 1980s counterpart; the province is booming as a result of high energy prices, a Liberal government in Ottawa is beginning to see a smaller and smaller part of a larger and larger royalty pie, and a Conservative government in Alberta is beginning to get suspicious. Although a repeat of the NEP is almost universally considered impossible, Alberta Premier Ralph Klein has been public about his concerns that another "threat is on the horizon". Several highly visible events over the past two months have combined to form the proverbial perfect storm in the oilsands: Alberta's almost obscenely large budget surplus, budget deficits in some of the eastern provinces, and the softwood lumber dispute with the United States. Ottawa has mentioned utilizing Canada's booming energy trade as a negotiating tool in the softwood lumber fight, infuriating Albertans who still remember the last time the federal government encroached on what is legally the property of the provinces. Premier Klein has lead the fight against a possible politicization of oil and gas, telling Ottawa to "keep its hands off" Alberta's resources. While a revival of the NEP is unlikely, several proposals which Albertans say has the same effect are on the table. One such idea, which would increase Ottawa's resource revenue take without violating NAFTA or provincial property rights, would link energy directly to Canada's commitments under the Kyoto Protocol. Although the details of the plan are still sketchy, proponents suggest a tax on carbon, directly affecting Alberta's "dirty energy" oilsands

industry. This proposal was pushed to the forefront in October when a report by Environment Canada found that Alberta is now the top provincial air polluter in Canada, surpassing Ontario for the first time in eight years. Whether a grab is made for Alberta's energy revenue or not will ultimately depend on popular support for the federal Liberals.

13. ALBERTA ENERGY COMPANY BUYS NORTH SEA DEVELOPER

Calgary-based Talisman Energy Inc. announced Friday that it would buy Britain's Paladin Resources PLC for C\$2.52 billion, giving a huge boost to Talisman's oil reserves and exploration potential. Nearly three-quarters of Paladin's reserves and production are in the North Sea, where the company produces 145,000 bbls per day. Talisman has aggressively pursued growth in the region since its acquisition of Bow Valley Energy Inc. over a decade ago. The purchase also gives Talisman 600,000 acres of properties in the Norwegian sector of the North Sea, greatly enhancing the company's opportunities for exploration. The buyout was surprisingly unpopular with investors. Jarislowsky Fraser, Talisman's largest shareholder, believes the company's dropping share value is a result of their lack of long-term vision: "When the price of oil is high, you pay a high price-the rule of buying low and selling high is not being observed". In good news for petroleum consumers worldwide, Talisman told reporters that before the end of the decade, production by Paladin's oil facilities is expected to increase by half, to 70,000 bbls per day, before the end of the decade.

14. NEW TERASEN-PEMBINA PARTNERSHIP PROPOSES CONDENSATE PIPELINE

Calgary-based pipeline companies Terasen and Pembina made public the creation of a new partnership between the two to oversee the possible development of a new condensate delivery system. The C\$1 billion Spirit Pipeline would transport offshore condensate from a deepwater port in Kitimat, British Columbia to Edmonton. Condensate is an ultra light oil used to dilute the heavy crude oil produced in the northern Alberta oilsands, allowing it to be transported by traditional oil pipelines. Demand for condensate in Alberta has been increasing along with development of the oilsands, while its supply from natural gas wells has dropped. The pipeline will be designed to transport 100,000 bbls of condensate a day, considerably less than the quarter-million bbls a day expected from Enbridge's proposed delivery system. Terasen and Pembina believe they have one advantage over rival pipeline designs however: timing. The Spirit Pipeline is expected to be in place by mid-2009, a full year earlier than that of Enbridge. Also working in the partnership's favor is the proposed route of Spirit, which will avoid most of British Columbia's greenfield, requiring fewer regulatory approvals and falling mainly under provincial jurisdiction. The construction of the pipeline will occur simultaneously with new condensate import facilities in British Columbia, with several energy companies planning to expand terminaling and port capacity in Kitimat.

15. NEW OILSANDS REGULATIONS RAISE ENVIRONMENTAL CONCERNS

A newly published Alberta Government plan would give oilsands development highest priority in northern Alberta. The new regulatory scheme creates a development zone around Fort McMurray, promising oil companies they now have the right to mine anywhere in the region. Previously, oil companies had to compete with producers of other resources, such as the lumber industry. The new plan, called a "Mineable Oil Sands Strategy" (MOSS) is still in the process of being drafted by the Oil Sands Ministerial Strategy Committee. While new mining projects are still required to pass environmental assessments, as well as receiving approval from the Alberta Energy and Utilities Board (EUB), critics say the new plan will lead to the destruction of the pristine forests of northern Alberta. Chris Severson-Baker, director of the energy watch program at the Drayton Valley, Alberta-based Pembina Institute, an environmental think tank, claims the new regulations will essentially demolish 2,800 kilometers of old-growth forests. The plan also has the potential to generate friction between Edmonton and local First Nations; the development region surrounds the Fort McKay reserve, and it is possible that hunting and fishing by aboriginals will be prohibited inside the zone.

16. KITIMAT CHOSEN AS WESTERN PORT FOR NEW PIPELINE SYSTEM

Calgary-based Enbridge Inc. announced this month that the company had chosen Kitimat, British Columbia as the western terminus for the proposed C\$4 billion Gateway pipeline project. Kitimat's deep water port will enable easy loading for the oil tankers, which will carry heavy crude from Gateway to markets in Asia and California. Gateway would consist of two pipelines, one transporting up to 400,000 bbls of heavy crude oil a day, and the other a 150,000 bbl a day condensate supply system. Condensate is used in the oilsands to facilitate flow of the heavy crude through traditional pipeline systems. If the National Energy Board (NEB) accepts the proposal, Enbridge hopes to complete construction by 2010. Discussions are underway between the company and several entities concerning use of the pipeline, including China government-owned Petro-China, which last April finalized a preliminary deal with Enbridge for half of Gateway's daily shipping capacity.

17. CEPA HEAD WARNS THAT LACK OF REGULATORY REFORM THREATENS PROPOSED MACKENZIE VALLEY PIPELINE

The recent announcement that an agreement has been reached with Conoco Phillips to build a US\$20 billion oil pipeline in Alaska has raised doubts that the proposed Mackenzie Valley natural gas pipeline will be completed on schedule, if at all. David MacInnis, President of the Calgary-based Canadian Energy Pipeline Association says the Alberta assumption that Mackenzie has a two or three year head start on the Alaska pipeline is inaccurate. The US\$20 billion pipeline would deliver 4 bcf of natural gas from the North Slope oil fields to US markets in the Midwest. The State of Alaska will hold an equity share of about US\$4 billion, or 20%. The state government is also considering two competing pipeline proposals; TransCanada is bidding for a similar pipeline, and another proposal would parallel the existing trans-Alaska line, delivering LNG to the port of Valdez. Energy officials argue that the delays in processing the Mackenzie project demonstrate the need for regulatory and fiscal reform. Although Ottawa has spent C\$75 million on improving regulatory capacity in the Northwest Territories, where the pipeline would originate, none of the 24 benefiting regulatory bodies are fully staffed. A recent study found that a two-year delay in construction of a pipeline in the region (either the Alaska or Mackenzie pipelines) would cost Canadian consumers C\$57.7 billion in higher natural gas prices over the next 20 years.

18. REVENUES FROM OIL AND GAS PROMISE TO MAKE 2005 BANNER YEAR FOR SASKATCHEWAN

Strong interest in Saskatchewan's oil and gas resources promise to make 2005 a record year for the province. With one sale still to go this year, 2005 is already one of the province's top seven years in terms of revenues from the sale of crown lands and resource rights. Sale of petroleum and natural gas rights has reaped Saskatchewan a total of C\$114 million as of October 31st. The largest single sale was for a permit allowing Canadian Landmasters Resource Service Ltd. to work over 156,000 hectares near Chamberlain, costing the company C\$3.5 million.

19. SASKATCHEWAN STRENGTHENS BUSINESS TIES IN CHINA, HONG KONG

Saskatchewan Premier Lorne Calvert and provincial Industry and Resources Minister Eric Cline wrapped up their meetings with top Chinese and Hong Kong businessmen in October. The pair reportedly used the meetings as a forum to promote Saskatchewan's growing energy and agricultural trade with the Far East. Premier Calvert reminded his audiences that China is now Saskatchewan's largest trading partner, besides the United States. Two-way trade between China and the province has increased in recent years, especially in potash shipments and agricultural commodities. Saskatchewan is the world's largest producer of potash, and is China's fourth largest trading partner in Canada. As a result of the meetings, China National Petroleum Corporation (CNPC) gave Saskatchewan high priority as a future strategic partner in energy related investment. The premier also applauded the close ties between Chinese and Saskatchewan universities; Calvert presided over the signing of two Memorandums of Understanding (MOUs) while in Beijing: one between the University of Regina and the CNPC, and one between the University of Saskatchewan and the Beijing Institute of Technology. Premier Calvert and Minister Cline concluded their four-nation tour with trips to Kazakhstan and Tokyo this week.

10. ALBERTA CONSIDERING BUILDING REFINERY FACILITIES

While Alberta Government officials have downplayed rumors that a C\$7 billion refinery project will soon receive regulatory permits, they have confirmed that the province is spending C\$200,000 to study the proposal. The study, commissioned by the Hydrocarbon Upgrading Task Force, is also funded in part by a group of industry sponsors interested in adding value to Albertan bitumen before being shipped to American markets. The task force initially looked simply at upgrading bitumen to synthetic light oil, but soon expanded the study's scope to review a broad range of value-adding petroleum products. However, provincial officials have attempted to minimize news of the project, saying it is still several steps removed from even becoming a feasibility proposal. Cindy Goodyear of Alberta Economic Development stated, "It's a hypothetical refinery used to illustrate the potential benefits of integrating a refinery with existing plants". Alberta Economic Development is organizing a group of 16 corporate participants in the study. If completed, the proposed refinery would be the first in North America in over a quarter century, and with a 300,000 bbls per day refining capacity, the largest in Canada.

11. RETIRING ENCANA FOUNDER LAUDED AS "VISIONARY"

The resignation announcement of Gwyn Morgan, President and CEO of Calgary-based EnCana, one of Canada's largest corporations, came as a surprise to an energy industry that has watched the company's share price grow more than 80% this year. Morgan has been credited with the strong performance of the company since its inception in 2002, when he brokered a merger deal between homegrown entities Alberta Energy Company (AEC) and PanCanadian Petroleum Limited. The resulting company was the largest in Canada in recent months, a result of high oil and gas prices. Morgan was responsible for many controversial changes in the corporation, including the re-focusing of EnCana on North American energy projects, when the company sold many of its foreign assets in South America and the North Sea. Morgan downplayed reports that his resignation was in response to the rumored acquisition of EnCana by Royal Dutch Shell. Morgan will remain as an officer of the company until 2006, working in an advisory capacity for new president and CEO Randall Eresman. Eresman has been with EnCana and its predecessor, AEC, since 1980, and played a key role in the early development of EnCana after the 2002 merger.

12. GAS OUTPUT IN US ROCKIES TO OVERTAKE WESTERN CANADA'S, PREDICTS ENERGY THINK TANK

Highly-respected energy consulting firm Ziff Energy has predicted that natural gas production in the US Rockies could overtake western Canadian output as early as 2012, mainly from increased exploitation of low-permeability rock. Production is expected to increase by about 2.5 bcf a day to 16 bcf in 2012, although Dennis Elias, manager of gas consulting for Calgary-based Ziff, warned that expansion could be seriously hampered by a lack of pipeline capacity in the region. A number of new pipeline projects have been proposed to meet the expected rise in demand for gas transportation systems, including a US\$3 billion pipeline from Wyoming to eastern Ohio and a much larger, 1,500 mile project outlined by Kinder Morgan Energy Partners.

13. ENOUGH NATURAL GAS FOR EVERYONE, CLAIMS MELCHIN

Alberta Energy Minister Greg Melchin assured Canadians this week that the expanding oilsands will not consume an overly large portion of the province's natural gas. Environmental and consumer groups have been concerned that oilsands production, which uses natural gas to extract bitumen from the ground, would eventually take the lion's share of natural gas, raising already record high prices. Several alternatives to using natural gas in the oilsands are being studied. One promising proposal is to use gasified coke, a byproduct of the oilsands mining, as a replacement fuel for the process. According to Melchin, even if a cost-effective alternative is not discovered, the northern Alberta oilsands would require only one-third to one-half of the natural gas being transported by the proposed Mackenzie Valley pipeline, which, if built, should be in operation early next

decade.

14. NEW ROAD AIDS FLOW OF LABOR BETWEEN SASKATCHEWAN AND ALBERTA

Alberta Premier Ralph Klein and Saskatchewan Premier Lorne Calvert released plans this September to strengthen infrastructure ties between the two provinces with a C\$45 million all-weather road linking La Loche, Saskatchewan with Fort McMurray, Alberta. Klein's government will provide the majority of funding; the cost of the Alberta leg of the proposed road will top C\$40 million, while Saskatchewan's portion is estimated at approximately C\$5 million. The project was hailed by both premiers, with Klein predicting that "the La Loche Road will give employers in the Athabasca oilsands access to a valuable new resource-the labour pool in northern Saskatchewan." The road is expected to provide relief to Fort McMurray's strained labor force. The northern Alberta town has boomed in recent years, a response to exponential increases in labor demand from local oil and gas companies. Construction on the La Loche Road could begin as early as the first months of 2006, and is expected to be completed by 2009.

15. ALBERTANS NOT SURPRISED AT FINDINGS THAT PROVINCE IS TOP POLLUTER

A recent survey conducted by Environment Canada has reported that Alberta is the nation's biggest polluter in 2003, surpassing Ontario for the first time in eight years and accounting for nearly a quarter of Canada's total emissions. "The numbers weren't a surprise to us because we are such a heavy petroleum producer in the country", said Alberta Environment spokesperson Erin Gregg. The provincial government has begun to address rising environmental concerns by encouraging companies to use cleaner technologies and enforcing tougher emissions standards for coal-fired power plants. However, many environmental groups believe Edmonton could do better. Chris Severson-Baker, an energy specialist with the Drayton Valley, Alberta-based Pembina Institute, argues that the province has yet to make substantial improvements in the environment; certain emissions, such as sulfur dioxide may be down, but increases in other hazardous pollutants bring into question Alberta's commitment to air quality. Severson-Baker noted, "Those reductions are being outstripped by the sheer growth of the oilsands". The Pollution Watch report also showed that Canada was beginning to lag behind the United States in reducing emissions.

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